

**THE  
IMPERIAL RUSSIAN  
FINANCES**



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# THE IMPERIAL RUSSIAN FINANCES

CERTAIN IMPORTANT POINTS  
WHICH THE  
GUARANTY TRUST COMPANY  
NEGLECTED TO TELL PROSPECTIVE  
INVESTORS IN RUSSIAN SECURITIES  
AND ENTERPRISES



THE INTERNATIONAL MONTHLY, INC.



## TRUE CONDITION OF RUSSIA'S FINANCES

In "The Americas" (Vol. 3, No. 5, February, 1916), published by the National City Bank of New York, Mr. Alexander Znamiecki, in charge of the Russian division of that Bank and connected with official Russia, supplies us with the following table showing the gradual increase of the Russian Government debt from 1902 to 1913:

On 1st/14th January	Rubles	Dollars
1902.....	6,473,754,151	3,333,983,388
1903.....	6,629,246,801	3,414,062,103
1904.....	6,636,111,841	3,417,597,598
1905.....	7,081,746,619	3,647,099,509
1906.....	7,841,164,510	4,038,199,723
1907.....	8,625,560,215	4,442,163,511
1908.....	8,725,523,210	4,493,644,453
1909.....	8,850,781,679	4,558,152,505
1910.....	9,054,618,769	4,663,128,666
1911.....	9,030,206,744	4,650,556,473
1912.....	8,957,875,209	4,613,305,733
1913.....	8,858,053,843	4,561,897,729

Out of the total debt, amounting on January 1, 1913 (January 14 our calendar) to \$4,561,897,729, the sum of \$3,693,629,007 was contracted for general State purposes, and \$868,268,722 for the construction of railways.

An analysis of the various sources from which the ordinary revenue was derived shows the following relative contributions:

	1895 %	1900 %	1905 %	1910 %	1911 %	1912 %	1913 %
Direct Taxes.....	8.2	7.7	6.2	7.8	7.6	7.9	7.9
Indirect Taxes.....	47.5	45.6	50.3	38.1	37.5	37.7	36.0
Duties.....	5.8	5.2	5.0	6.0	6.5	6.5	6.9
Total from taxation.....	61.5	58.5	61.5	51.9	51.6	52.1	50.8
Royalties, property, and funds belong- ing to the State..	23.9	31.3	31.1	43.3	44.1	43.9	45.1
Miscellaneous re- ceipts.....	14.6	10.2	7.4	4.8	4.3	4.0	4.1
	100	100	100	100	100	100	100

The diminution of taxation since 1910 is due to the great poverty of the people and their absolute inability to pay taxes, as shown by the unheard-of arrears, amounting to 45 per cent.

According to the proposals for the ordinary budget of 1916 Russia's expenditure is composed of the following items:

Public Debt Service.....	\$298,866,392
Army and Navy.....	398,108,418
Ministry of the Imperial Household.....	8,425,191
Higher Administration.....	4,685,237
Holy Synod.....	27,792,370
Ministry of the Interior.....	117,112,049
Ministry of Education.....	85,057,287
Ministry of Finance.....	166,943,178
Ministry of Justice.....	52,419,860
Ministry of Ways of Communication.....	353,708,799
Ministry of Agriculture.....	71,477,340
Ministry of Commerce.....	32,710,393
Ministry of Foreign Affairs.....	3,704,854
Administration of Studs.....	1,961,393
Unforeseen expenditure.....	5,150,000
Audit Ministry.....	6,551,144
	<hr/> \$1,634,673,905

Russia, a purely agricultural country, proposes to spend 4.4% of her annual expenditure in furthering the chief livelihood of her people; slightly more, 5.2%, is to be spent for the education of a people 90% of which are illiterates, whereas for public debt service and military purposes (not counting war expenditure) \$696,974,808, or 43%, is set apart.

The expenditure for administrative purposes in Siberia, Asiatic Russia, and in the Caucasus is far in excess of the total revenue derived from these provinces and must be supported in part by European Russia and Poland.

In addition to the Government debt of nearly 9,000,000,000 rubles (\$4,561,897,729) up to January 1, 1913, the Russian Government, according to available reports, has contracted since the beginning of the war the following war-loans:

First internal 5's at 94 on 5.35% basis.....	\$257,500,000
Second internal loan.....	257,500,000
Third loan, five year 5½'s.....	515,000,000
Fourth loan, ten year 5½'s at 95.....	500,000,000
Fifth war loan.....	515,000,000
Currency loan.....	105,000,000
Pour per cent bonds.....	309,000,000
Short term 5½ loans.....	1,500,000,000
Treasury bills.....	1,500,000,000
Carried forward.....	<hr/> \$5,459,000,000

Brought forward.....	\$5,459,000,000
Issues in France and England.....	277,000,000
Banking credit in U. S.....	7,000,000
Acceptances in U. S. (since paid).....	25,000,000
Credit in U. S.....	50,000,000
Treasury notes in U. S.....	10,000,000
Banking credit.....	25,000,000
	<hr/>
	\$5,853,000,000

In this list the enormous sums Russia is raising by issuing paper money are not contained. The printing-press must be working day and night, for on June 1, 1916, more than \$3,100,000,000 had been issued.

The limit within which the Imperial Russian Bank can issue paper money has been raised several times. If we look at the ratio of the gold reserve in the Imperial Bank to the paper issue since the war broke out, we get the following results:

	Gold	Paper-Money
July 8, 1914.....	\$800,570,000	\$ 817,055,000 = 99%
July 8, 1915.....	789,495,000	1,898,355,000 = 41%
June 1, 1916.....	769,945,000	3,199,770,000 = 24%

Not going so far as many people with inside knowledge do, who consider all Russian statements about gold holdings as pure romance, but taking them at their face value, we notice a steady decrease in the proportion of gold cover. This decrease alarmed the Russian Government so that it decided to suspend altogether the principle of gold backing for notes.

Instead of a cover by gold a cover by other paper has been adopted, thus piling one paper claim upon the other. The regulations actually in force are as follows:

1. The Finance Minister shall have the power temporarily during the war, or, if necessary, for one year after the war, to issue Imperial Credit Bills above the amount authorized by law in a certain fixed proportion to the short-term bonds issued by the Treasury.

2. *These short-term Treasury bonds to form with the gold reserves a guarantee for all Imperial Credit Bills and Note issues.*

These regulations tend to favor strongly an inflation of the currency. The Treasury bills which the Finance Minister cannot place on the market are used as cover of banknotes which can thus be issued in unlimited quantities.

A recent item in the newspapers stated that silver and

even copper coins have practically disappeared from circulation in Russia.

The time limit set in the new regulations is only an embellishment which serves to hide the virtual abandonment of the policy of gold cover which it will not be possible to resume for many long years to come.

In the international market these facts find expression in the extraordinary depreciation of the Russian exchange, which for a long time has amounted to 40%. That implies a decrease of 40% in the purchasing power of the ruble in foreign markets. The longer the war lasts the more Russia becomes dependent upon foreign markets and the worse becomes her financial situation.

## CAN RUSSIA DISCHARGE HER INDEBTEDNESS?

Will Russia be able to pay the interests on her enormous debt?

The interest, at the average rate of 6%, will require more than 2,000,000,000 rubles annually, or 60% of the whole revenue in 1913.

A study of the situation in European Russia reveals the following facts:

While viewed on the maps the German occupation of Russian territory does not seem alarming in extent compared with the vast area of the Russian Empire, yet it will be seen that the industrial losses have been appalling.

Germany is in possession of the entire ten Polish "governments," Suwalki, Plock, Lomska, Warsaw, Kalisz, Siedlce, Piotrkow, Kielce, Radom, and Lublin. She has more than one-third of the Baltic Provinces through her occupation of Courland and a section of Livonia. She possesses Vilna and the "government" of Kovno, with large portions of the "governments" of Minsk and Volhynia. (See Russian Year Book, 1914. London, Eyre & Spottiswoode, Ltd., pages 15 to 54.)

The total area of European Russia is 1,933,449 square miles. Of this Germany now holds about 175,000 square miles, or practically ONE-ELEVENTH OF THE AREA OF EUROPEAN RUSSIA. (Same authority.)

The total population of European Russia is 138,486,900, of which 26,263,300 dwell in the territories occupied by the



Germans; Germany, in other words, controls nearly ONE-FIFTH OF RUSSIA'S POPULATION. (Same authority.)

Poland and the western part of European Russia are the chief industrial sections of the Empire, there being no manufactures in South Russia of importance, except the smelting and working of iron, and none of great consequence in other portions of the country. Yet it is these very industrial sections, the most densely populated centres, that are in the hands of the Germans. They have seized Russia's chief industries, a large portion of her great manufacturing plants and control many of her natural resources. (See U. S. Department of Commerce. Special Consular Report, Russia, 1913, page 44.)

What the loss of Poland means to Russia may be grasped by a consideration of what follows. Although she has large coal deposits in several portions of her great territory, Russia is nevertheless a heavy importer of coal. Her western industries were supplied solely from the great coal-field of Dombrova, in Poland. It is estimated that this basin contains 855,000,000 tons of coal, and the forty mines yielded in 1912 more than 8,000,000 tons. The entire Russian coal output that year amounted to 30,000,000 tons, so Germany possesses more than one-fourth of the Empire's output. (See Russian Year Book, 1914, pages 188, 190.)

"Of all Russian industries," says Baron A. Nolde, "the textile is one of the oldest, and, considered economically, the largest. The output of the weaving mills in the province of Piotrkow (Lodz) in 1910 was 2,906,000 poods (46,000 tons)." (See *London Times*, Russian Supplement, March 28, 1913, page 26, col. 1, "The Textile Industry," by Baron A. Nolde.)

There are 145 weaving mills in the Empire, with 8,671,664 spindles. In the Polish and that part of the Baltic districts occupied by the Germans there are 49 mills, with a total of 1,840,874 spindles, or nearly one-fifth of the total for the Empire. The Russian woolen industry also is located in the Baltic and Polish provinces, which are principally engaged in the manufacture of thin voile fabrics. (See Russian Year Book, page 136.)

A large portion of the flax industry is lost to Russia, with the governments of Kovno, Minsk, Vilna, Courland, and Grodno, comprising an acreage of 280,500, or one-tenth of the Empire's total. The yield of these provinces in 1912 was 3,546,000 poods, or one-ninth of the total. Again, one-six-

teenth of the hemp industry is in German hands, in the provinces of Courland, Kovno, Vilna, Suwalki, Minsk, Volhynia, and seven more of the Polish provinces. (See Russian Year Book, page 125.)

Among the chief centres of the Russian iron and steel industry is Poland, the annual Polish production in pig iron being 386,000 tons; steel, 448,000 tons; finished iron and steel products, 363,000 tons. More than one-tenth of the Empire's output is in German hands. (See Russian Year Book, pages 200-201.)

Poland has the largest area devoted to potato culture, 2,498,488 acres; Lithuania having 770,534, and one-third of the Baltic provinces 110,000 acres. All this, more than one-third of the potato acreage of the Empire, is in German hands. (See Russian Year Book, pages 165 to 176.)

Again, zinc is chiefly produced in Poland, near Olkusz; the output is about 500,000 poods (8,000 tons) a year. Poland also produces about 1,000 tons of copper annually. (See London *Times*, Russian Supplement, page 22, col. 2, March 28, 1913.)

The figures on horses and cattle, sheep and goats and pigs are very interesting. By this time probably most of these have been seized by the contending armies. But the tables show that at the beginning of the war there were in Poland and the six out of fifty "governments" of European Russia now occupied by Germany one-seventh of the total for Russia in Europe, or 3,420,538 horses, 5,429,769 cattle, 4,865,107 sheep and goats, and 1,678,528 pigs. (See Russian Year Book, pages 147, 148.)

About one-sixth of Russia's railways are held by Germany, the mileage in Poland being 3,172 versts (a verst is 0.6629 mile), and 4,970 versts in six of the fifty provinces occupied in European Russia. (See Russian Year Book, page 246.)

The density of population in Poland and the development of communities in that region are in sharp contrast with the other sections of European Russia. They are best illustrated by the percentage of road construction. Per 10,000 square versts (a verst being 0.44 square mile), there are in Poland 733.9 versts of roads built, as compared with only 48.8 versts, per 10,000 square versts in the fifty provinces of European Russia. Per one million inhabitants in Poland, there are 675 versts of roads, as compared with only 174.2 versts in the rest of European Russia. (See Russian Year Book, page 225.)

From these facts it is evident that through their seizure of Poland the Germans have obtained possession of the most valuable portion economically of Russia, since the taxes raised on the Polish industries and factories produce the greater proportion of revenues realized by Russia in Europe. All this has now been lost.

How Russia's finances are affected by the occupation of the ten Polish and six Russian provinces can best be inferred from the following table, which Mr. Alexander Znamiecki has compiled from official sources for the year 1912:

	Population		Revenue and Expenditure in Millions of Dollars		Balance
	Total in 1912	Per Sq. Verst*	Rev.	Expend.	
50 Prov. of Russian Kingd.	122,550,700	28.9	871.05	753.05	+118.00
10 Prov. of Poland.....	12,776,100	114.5	118.37	73.29	+ 45.08
14 Prov. of Caucasus.....	12,288,100	29.8	58.73	64.91	- 6.18
10 Prov. of Siberia.....	9,577,900	0.9	50.77	161.84	-111.07
9 Prov. of Central Asia....	10,727,000	3.4	22.99	35.42	- 12.43
8 Prov. of Finland.....	3,140,100	10.9	3.26	7.62	- 4.36
Treasury and special accts..	.....	.....	470.69	426.26	+ 44.43
Consuls and bankers abroad.	.....	.....	4.61	95.92	- 91.31
Totals for the Empire....	171,059,900	8.9	1,600.48	1,618.32	- 17.84

\* 1 Sq. Verst = 28½ acres.

By the elimination of Poland, the only district yielding a surplus besides Russia proper is lost. According to the figures of 1912 the deficit would jump to \$63,000,000.

The German Chancellor has declared publicly that under no conditions will Poland be returned to Russian rule; and as there is no great probability of Poland being reconquered by the Russian armies, Russian finance will have to face this grave setback. No account has yet been made of the six Russian provinces conquered by the Teutons. If the revenue derived from them is no greater proportionately than the rest of the country, the loss of those provinces would mean a loss of \$109,000,000 annually. But it is probably much larger.

Moreover, the Russian revenues have suffered an enormous decrease by the abrogation of the vodka sale by the Russian Government. The income derived from that source amounted in the 1914 estimate to \$467,902,500, or about one-fourth of the entire revenue.

Another item of vital importance are the appalling losses in the country's foreign trade. The following table from the

London *Economist* of May 6, 1916, shows the changes that have taken place in Russia's exports and imports and her trade balance during the last twelve years:

	In Million Rubles		Balance
	Exports	Imports	
1904-08.....	981	646	+335
1909-13.....	1,423	1,004	+419
1913.....	1,421	1,221	+200
1914.....	866	939	- 73
1915.....	314	674	-360

Thus, says the *Economist*, Russia, which formerly exported one-third of a billion rubles annually with which to pay her import of manufactures and the interest in the foreign capital invested in her industries, is now owing almost exactly that amount for manufactured goods and war stores. For these she is unable at present to pay by the export of raw material or of gold.

Germany holds also valuable Russian outlets to the Baltic Sea and is in possession of the ports of Libau and Windau. Libau's trade in 1912 amounted to \$36,041,740 in exports and \$16,085,617 in imports, while the trade of Windau aggregated \$63,270,929 in that year. The still greater Baltic port of Riga is now blockaded from the sea and its communications on the land side are cut off. Riga handles one-sixth of Russia's foreign trade, the value of the combined imports and exports of the port in 1912 being \$192,018,945. (See U. S. Department of Commerce, Special Consular Report. Russia, 1913, pages 186 ff.)

## THE RECENT RUSSIAN LOAN IN THE UNITED STATES

Recently cable advices were received announcing the closing of a loan of \$50,000,000 to the Russian Government by an American banking group consisting of the National City Bank; the Guaranty Trust Company of New York; J. P. Morgan & Co.; Kidder, Peabody & Company, and Lee Higginson & Company. Negotiations for the loan have been going on for several months, according to the official announcement. The conditions of the loan are as follows:

The American banking group will establish in this country a credit of \$50,000,000 to run for three years in

favor of the Russian Government. Simultaneously, the Russian Government will establish in Petrograd a credit of \$150,000,000 rubles in favor of the American group, or at a fixed ratio of 3 rubles to \$1. Interest on the credit arranged here at the rate of  $6\frac{1}{2}\%$  per annum will be paid by the Russian Government in dollars in New York. The ruble credit may be used by the American group at any time at the rate of 3 rubles to \$1.

The Russian Government further extends to the American group an option to purchase at any time within the three-year period  $5\frac{1}{2}\%$  per cent. five-year imperial Russian Government bonds at  $94\frac{3}{4}$ , less a commission; the bonds to run for five years from date of purchase—principal and interest payable in dollars in New York. Should the American group elect to exercise its option, the purchase price of these bonds may be paid with the ruble credit at the rate of 3 rubles for \$1.

The Russian Government is to receive one-half of the profits arising from the possible exchange profit in the ruble credit, which, under the circumstances, and with the prospect of this added profit, is only fair to the Government.

The above-mentioned bankers have sent out private circulars to investors, which read in part as follows:  
"Confidential.

"Dear Sir:

"The undersigned are arranging a credit in New York on behalf of the Imperial Russian Government. The amount in which we will participate will not exceed \$50,000,000, with interest at the rate of  $6\frac{1}{2}\%$  per annum.

"To provide for the possible retirement of the credit before maturity, the undersigned hold the two following privileges:

"(a) We may, in our discretion, sell rubles, which are credited to us at the State Bank of Russia to an amount equal to three rubles for each dollar of credit. The Government is to receive 50% of the profits resulting from such transactions, and the net balance is to be distributed ratably among the participants upon final settlement of the account.

"(b) We retain the privilege to purchase from the Government, in lots of not less than \$5,000,000, \$55,402,000 par value Five-Year Five and One-Half Per Cent. Imperial Russian Government Gold Bonds, which are to be held subject to our order and which, if purchased, will be paid for out of the ruble credit at the rate of  $33\frac{1}{3}$  cents per ruble.

"The price at which we have the right to purchase these bonds from the Government is to be  $94\frac{3}{4}$  and interest, less  $4\frac{1}{2}$  per cent., and to the extent that such privilege is exercised, the proceeds of the bonds to the extent of \$902.50 for each \$1,000 bond will be applied to the liquidation of the credit.

"Out of the proceeds of the sale of these bonds to any syndicate formed for their distribution, we shall be entitled to reimbursement for our expenses in forming the syndicate and, in addition, compensation not exceeding 1%.

"We make no other charges to the participants, being compensated by the Imperial Russian Government for our services in arranging the credit.

"Kindly advise any of the undersigned by wire as to the amount of participation, if any, that you may desire in this business."

Stripping this "confidential" communication of its financial lingo, in which Wall Street bankers seek to conceal their pickings from the vulgar eye, we learn the following:

First privilege (a):	
Credit to Russia.....	\$50,000,000
Secured by 150,000,000 rubles; minimum exchange on rubles, 29-5-16	
Selling 150,000,000 rubles at 30 cents.....	45,000,000
Profit.....	\$5,000,000 or 10%
One-half of profit to Russia.....	2,500,000 or 5%
Balance for syndicate.....	\$2,500,000
Year's interest on \$50,000,000 credit at $6\frac{1}{2}$ %.....	3,250,000
Syndicate commission of $4\frac{1}{2}$ %.....	2,250,000
Syndicate profit if credit is retired before maturity at end of first year, by selling rubles.....	\$8,000,000
Compensation by Russian Government to syndicate for arranging credit.....	1,000,000
Total syndicate profit at end of one year.....	\$9,000,000 or 18%
Alternative privilege (b):	
Credit to Russia.....	\$50,000,000
Year's interest at $6\frac{1}{2}$ %.....	3,250,000
Conversion of credit into \$55,402,000 five-year $5\frac{1}{2}$ % bonds purchased at $94\frac{3}{4}$ , less $4\frac{1}{2}$ % commission.....	5,401,695
Syndicate profit if credit is converted into bonds before maturity at end of first year.....	\$8,651,695
Compensation by Russian Government to syndicate for arranging credit.....	1,000,000
Total syndicate profit at end of one year.....	\$9,651,695 or 19%

The two privileges at the option of the Morgan syndicate are nearly on a parity. Should rubles advance above

30, the syndicate would convert the credit into the five-year bonds. Should they decline below 30, the syndicate would sell them and make a greater profit. In either event, the Russian Government must pay 18% to 19% for its money at the close of the first year. A profit of from eight to nine and one-half million dollars in one year would be almost enough to satisfy any one. But this is only the beginning of business for the Morgan group. They are now ready to form a second syndicate, and the "confidential" invites you to join them as "participants."

Is not this transaction proof enough of Russia's bankruptcy? Has ever any country been submitted to such humiliating conditions? Is not every dollar given to Russia under such conditions lost?

It is up to fair-minded and intelligent people to decide.

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## THE TYPE YOU ARE ASKED TO TRUST

In the *Metropolitan* for July, 1916, Mr. John Reed, who was with the Russian army in Galicia, tells us something about the behavior of Russian officers and their sense of honor, and also of Russian business methods:

"From Zalezchik to Tarnopol we were alone in our compartment, but in the next one were four or five shaven-headed colonels and majors, their boots highly polished, their drab blouses ablaze with highly colored decorations. Windows were closed, belts unloosened, swords hung up. On a little wooden stand was a great brass samovar, steaming, and a wooden box of cigarettes overflowing on the table. They smoked and drank tea and talked about their souls.

"Moved by Russian curiosity and Russian hospitality, the major, speaking bad French, came into our compartment and introduced himself, and began telling all the military secrets he knew—where his regiment was, how many men it comprised, how it was planned to throw them across the Pruth the next night in the dark and try to surprise a cluster of Austrian batteries. This was not indiscretion on

his part; simply, it was no fun to talk about these things to people who knew them already—and he was perfectly delighted to find strangers who seemed interested. He took us into his compartment and the others made room, plied us with tea and cigarettes, eagerly questioned us about ourselves, our business, how much salary we got, did they drink much whisky in America, was Newport as smart as the Riviera, and what we thought of the war. Then the original discussion was resumed, this time in broken French and German for our benefit. Each man had been telling about his first love affair; from that they entered upon a discussion of the psychology of sex, its relation to artistic energy, the power it had over the lives of men. . . .

"Only toward evening did we discover their business. They were a commission of officers sent by General Dimitrieff to discover the whereabouts of seventeen million bags of flour which were lost.

"Now, seventeen million bags of flour, if assembled, would loom as large as the city of Poughkeepsie; yet they had vanished. It seemed that the Russian Government had bought, caused to be ground and packed, the seventeen million bags as a provision for the southwestern armies for the year. The flour was shipped from Kiev to Tarnopol, a distance of 230 versts, along a line of railroad crossed only twice by other lines; and yet within that one hundred and eighty odd miles more than thirty trainloads of flour had absolutely disappeared from the face of the earth.

"'But where can it have gone?' I asked.

"The grizzled colonel shrugged his shoulders with a smile. 'We have reason to believe,' said he, 'that it was sold to the Roumanians and then shipped into Austria.' He sighed. 'Such things will happen.' . . .

"Graft in Russia is on such a naively vast scale that it becomes grotesque.

"The Russian representative of a foreign shipbuilding concern told me of a battleship which he personally designed for the Russian Government in 1905. The plans were accepted, the steel contracted for, an army of workmen assembled at Odessa, and in the course of time it was reported that the battleship was ready for launching. The Governor of the province personally broke the champagne bottle over her bow, and a month later she put to sea on her trial trip. Then news came that the battleship had sunk somewhere in the Black Sea. Some one was suspicious—and an inves-



tigation was ordered; and it developed that the battleship had never been built at all.

"At the most serious epoch of the Russian retreat last summer, when whole divisions were annihilated because of the lack of ammunition for their cannon, I met an Englishman who had come to Russia three months before with a shipload of shrapnel. He said it was still at Archangel—because he could not bribe the railway and ordnance officials to ship it to the front. . . .

"A French steel manufacturer of Moscow contracted to furnish several million shells for the Russian artillery. Many carloads were sent to the front, but when they arrived it was found that they did not fit the Russian cannon; so they were left behind on the retreat, and the Germans used them with entire success. Summoned before an investigating commission, the Frenchman produced his specifications, drawn up and signed by the Minister of War, Mr. Soukomlinov.

"Now, Mr. Soukomlinov had been a comparatively poor man before the war; but after the commencement of hostilities, he began to buy large blocks of Petrograd real estate, and it was freely said by people on the inside that he had been quite simply selling military secrets to the Germans. Later he resigned under a cloud of suspicion, which must have been grave, indeed, as he was one of the leaders of the Reactionaries.

"I was in Petrograd when a certain colonel drove up one day in front of the establishment of a friend of mine who sold automobile tires. The colonel had fifty motor ambulances, just then in great need at the front, and he asked my friend to look them over and estimate what it would cost to put new tires on the entire fifty. The salesman named the figure.

"‘And how much do I get out of it?’ asked the colonel.

"‘The customary ten per cent.’

"‘All right, then, go ahead.’

"The salesman came out and looked at the tires.

"‘Why,’ he said, ‘you don’t need new tires on these cars. They are almost new.’

"‘You mind your own business!’ snapped the colonel. ‘Put those tires on, and don’t talk too much about it if you know what’s good for you.’

"American businessmen selling supplies to the Russian Government had endless stories of the sublime voracity of

the Purchasing Department. It did not make any difference how good the product—the question invariably was: ‘How much do I get?’ In many cases, when the company could not afford to pay a large graft, the Russians themselves raised the prices to their own Government.

“The whole business was so frank and greedy that even with the best intentions in the world the Secret Police could not fail to stumble on some gigantic system of fraud every two or three days. Exposure after exposure revealed that the entire Intendancy (Supply Department) was nothing but a mass of corruption; but the trail always led so far and so high that it had to be choked off. Princes and barons and financiers and army officers and cabinet ministers were implicated. Even the Grand Duke Serge, Chief of the Department of Artillery Munitions, was suspected with good reason, and the Tsar's household was not free from calumny. Banks were seized and safe-deposit boxes broken open, and enough documents found to convict practically the whole bureaucracy. Persons high in power one day were replaced the next. Sometimes you went to the Intendancy to see an official with whom you had talked three hours previously, and found a new man in his place.

“‘Where is Colonel Varschavski?’ you asked.

“Sometimes the newcomer replied briefly, ‘Siberia’; sometimes he shrugged his shoulders; and sometimes he lit a match, let it burn a little while, and then gracefully blew it out.”

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